



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA

Herman A. Bertuleit

TAWAS POLICE AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2008

I_N_D_E_X

PAGE

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 5

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

EXHIBIT A	STATEMENT OF NET ASSETS	6
EXHIBIT B	STATEMENT OF ACTIVITIES	7

FUND FINANCIAL STATEMENTS

EXHIBIT C	BALANCE SHEET - GOVERNMENTAL FUND	8
EXHIBIT D	RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	9
EXHIBIT E	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND	10
EXHIBIT F	RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES	11
EXHIBIT G	NOTES TO FINANCIAL STATEMENTS	12 - 22

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT H	STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	23
-----------	---	----



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA

Herman A. Bertuleit

November 24, 2008

Independent Auditors' Report

Members of the Authority Board
Tawas Police Authority
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Tawas Police Authority, Iosco County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Police Authority's basic financial statements, as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund information of the Tawas Police Authority, Iosco County, Michigan, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.

***Tawas Police Authority
810 W. Westover Street
East Tawas, MI 48730***

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Tawas Police Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. The discussion focuses on the Authority's primary government. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$161,971.
- The Authority's total net assets decreased by \$5,921.
- The Authority's governmental fund reported an ending fund balance of \$169,691 this year, a decrease of \$8,110. The entire amount is available for spending (*unreserved fund balance*).

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Authority as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Authority's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Authority as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the financial condition of the governmental activities of the Authority at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Authority with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Authority.

With this report, all capital assets are listed for the Tawas Police Authority. These assets are comprised of vehicles owned by the Authority. These assets total over \$71,000.

Fund Financial Statements

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority operates under one fund which is considered a *Governmental Fund*.

Governmental Funds:

Governmental funds are those through which all governmental functions of the Authority are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Authority *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

Government -Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the Tawas Police Authority at June 30, 2008:

	<u>Governmental Activities</u>
Current Assets	\$ 180,198
Capital Assets, net	<u>39,593</u>
Total Assets	<u>219,791</u>
Current Liabilities	10,507
Long-Term Liabilities	<u>47,313</u>
Total Liabilities	<u>57,820</u>
Net Assets	
Invested in Capital Assets	39,593
Unrestricted	<u>122,378</u>
Total Net Assets	<u><u>\$ 161,971</u></u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2008.

Generally speaking, the Authority's net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. The Tawas Police Authority, through its governing body, i.e., the Authority Board, has taken a sensible approach regarding capital asset acquisition. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

	<u>Governmental Activities</u>
Program Revenues:	
Charges for Services	\$ <u>500,000</u>
General Revenue:	
Fines and Forfeitures	27,670
Investment Earnings	7,219
Gain (Loss) on Sale of Capital Assets	(1,049)
Other	<u>14,716</u>
Total General Revenue	<u>48,556</u>
Total Revenues	548,556
Program Expenses:	
Public Safety	<u>554,477</u>
Change in Net Assets	(5,921)
Beginning Net Assets	<u>167,892</u>
Ending Net Assets	<u><u>\$ 161,971</u></u>

Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$500,000 from *Charges for Services*. Operating expenses totaled \$554,477 for these same activities.

Financial Analysis of Authority Funds

As noted earlier in this report, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The Authority operates under one fund which is considered a major governmental fund.

Budgetary Highlights

General Fund Budgetary Highlights

The Authority's budget is prepared according to Michigan Law. During the fiscal year ended June 30, 2008, the Authority amended its budget a few times, none significantly.

The General Fund actual revenue was \$549,605. That amount is above the original budget estimate of \$535,000 and final budget estimate of \$547,050. The variance between the actual revenue and the final budget was the result of increased revenues from various sources.

The General Fund actual expenditures were \$560,279. That amount is below the original and final budget estimate of \$587,000. The variance between the actual expenditures and the final budget was the result of decreased expenditures mainly in salaries, wages and fees expense.

Fiscal year 2008 saw the Authority's General Fund fund balance decrease from \$177,801 to \$169,691.

Capital Assets

Capital Assets

The Authority defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

Capital Assets – Governmental Activities beginning balance was \$70,274, with an ending balance of \$71,409. Governmental Activities Total Capital Assets – Net of Depreciation was \$39,593.

Economic Factors

The Authority Board continues to work hard to keep expenditures down and to maintain revenue levels that are within their control. The Authority charges for services account for approximately 91% of the Authority General Fund Revenues.

The major expenditures for the Authority General Fund are for salaries, wages and fees, followed by payroll taxes and employee benefits.

The Authority Board monitors the revenue and expenditures throughout the year and takes appropriate action when the economic factors dictate a change.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Tawas Police Authority, 810 W. Westover Street, East Tawas, Michigan, 48730.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 3)	\$ 173,751
Prepaid expenses (Note 1)	6,447
Capital assets, net (Note 4)	<u>39,593</u>
Total Assets	<u>219,791</u>
<u>Liabilities</u>	
Accounts payable	3,008
Accrued expenses payable	7,499
Long-term liabilities: (Note 5)	
Due within one year	20,030
Due in more than one year	<u>27,283</u>
Total Liabilities	<u>57,820</u>
<u>Net Assets</u>	
Invested in capital assets	39,593
Unrestricted	<u>122,378</u>
Total Net Assets	<u>\$ 161,971</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS POLICE AUTHORITY
losco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>	Net (Expense)
		Charges for Services	Revenue and Changes in Net Assets
			<u>Governmental Activities</u>
Governmental Activities:			
Public safety	<u>\$ 554,477</u>	<u>\$ 500,000</u>	<u>\$ (54,477)</u>
General Revenue:			
Fines and forfeitures			27,670
Investment earnings			7,219
Gain (loss) on sale of capital assets			(1,049)
Other			<u>14,716</u>
Total General Revenue			<u>48,556</u>
Change in Net Assets			(5,921)
Net Assets - Beginning of Year			<u>167,892</u>
Net Assets - End of Year			<u>\$ 161,971</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUND
June 30, 2008

General Fund

ASSETS

Cash and cash equivalents (Note 3)	\$ 173,751
Prepaid expenses (Note 1)	<u>6,447</u>
Total Assets	<u>\$ 180,198</u>

LIABILITIES AND FUND EQUITY

Liabilities

Accounts payable	\$ 3,008
Accrued expenses payable	<u>7,499</u>
Total Liabilities	10,507

Fund Equity

Fund Balances:	
Unreserved:	
Undesignated, reported in:	
General fund	<u>169,691</u>

Total Liabilities and Fund Equity	<u>\$ 180,198</u>
-----------------------------------	-------------------

The accompanying notes to financial statements are an integral part of this statement.

TAWAS POLICE AUTHORITY
Iosco County, MichiganRECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2008

Total Governmental Fund Balance: \$ 169,691

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported as assets in the
governmental fund. Capital assets at year end consist of:

Capital Assets Cost	\$ 71,409	
Accumulated Depreciation	<u>(31,816)</u>	
		39,593

Long-term liabilities are not due and payable in the current period
and, therefore, are not reported as liabilities in the governmental
funds. Long-term liabilities at year end consist of:

Compensated Absences Payable	<u>(47,313)</u>	
------------------------------	-----------------	--

Total Net Assets - Governmental Activities \$ 161,971

The accompanying notes to financial statements are an integral part of this statement.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCE - GOVERNMENTAL FUND
For the Year Ended June 30, 2008

	<u>General Fund</u>
<u>Revenue</u>	
Charges for services	\$ 500,000
Fines and forfeitures	27,670
Interest earned	7,219
Other	<u>14,716</u>
Total Revenue	<u>549,605</u>
<u>Expenditures</u>	
Salaries, wages and fees	285,915
Payroll taxes and employee benefits	133,885
Operating supplies	3,088
Communications	7,531
Transportation	18,845
Insurance	36,451
Training	691
Repair and maintenance	28,625
Clothing	3,282
Professional	11,582
Rents and leases	7,200
Capital outlay	20,841
Other	<u>2,343</u>
Total Expenditures	<u>560,279</u>
Excess of Revenue Over (Under) Expenditures	(10,674)
<u>Other Financing Sources</u>	
Sale of capital assets	<u>2,564</u>
Excess of Revenue and Other Sources Over (Under) Expenditures	(8,110)
Fund Balances - Beginning of Year	<u>177,801</u>
Fund Balances - End of Year	<u>\$ 169,691</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Total Net Change in Fund Balance - Governmental Fund	\$ (8,110)
--	------------

Amounts reported for governmental activities in the statement of activities
 are different because:

The governmental fund reports capital outlays as expenditures. However,
 in the statement of activities, the cost of those assets is allocated over
 their estimated useful lives as depreciation expense.

Capital Assets Reported as Capital Outlays in the Governmental Fund	\$ 20,841	
Loss on Disposal of Capital Assets	(3,613)	
Current Year Depreciation Expense	<u>(15,501)</u>	
Net difference		1,727

Some expenses reported in the statement of activities do not require
 the use of current financial resources and, therefore, are not reported
 as expenditures in the governmental funds:

Net Change in Accrued Compensated Absences	<u>462</u>
--	------------

Change in Net Assets of Governmental Activities	<u>\$ (5,921)</u>
---	-------------------

The accompanying notes to financial statements are an integral part of this statement.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tawas Police Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of Authority's Operations

The Tawas Police Authority operates under the supervision and control of a four member Board.

The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Authority exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Joint Venture

The Tawas Police Authority functions as a joint venture between the City of Tawas City and the City of East Tawas. The purpose of the entity is to provide police protection to the constituent municipalities and other municipalities by contract.

C. Basis of Presentation

The Authority's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government -Wide Financial Statements

The statement of net assets and the statement of activities display information about the Authority as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Authority that are governmental and those that are considered business-type activities. The Authority does not currently have any business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Authority at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Authority, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Authority.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Fund

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the governmental fund according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Authority's general fund is considered a governmental fund.

E. Measurement Focus

Government -Wide Financial Statements

The government -wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Authority are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government -wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government -wide statements and the fund financial statements for governmental funds.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government -wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Authority, available means expected to be received within 60 days after year end.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Authority must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the Authority's revenue sources are considered both measurable and available at year end.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures :

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, is not recognized in governmental funds.

G. Budgets and Budgetary Accounting

The Tawas Police Authority normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Police Chief submits to the Authority Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. Prior to July 1, the budget is legally enacted through passage of a Board motion.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Authority Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Authority Board.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental fund. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Authority does not possess any infrastructure. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Estimated Lives</u>
Vehicles	5 – 10 years

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences

The Authority reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation and sick leave benefits are accrued as a liability using the vesting method. An accrual for earned vacation and sick leave is made based on accumulated vacation and sick leave and the employee wage rates at year end taking into consideration limits specified in the Authority's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, the current portion of unpaid compensated absences is recognized as a liability and expenditure to the extent payment comes due each period upon the occurrence of employee resignations and retirements. These amounts, if any, are recorded in the account "Accrued Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

L. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

M. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change in Accounting Principles

For 2008, the Authority has implemented Governmental Accounting Standards Board (GASB) Statement Number 34, "Basic Financial Statements -and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" in their entirety as required by the Local Audit and Finance Division of the Treasury Department of the State of Michigan.

GASB Statement No. 34 creates new basic financial statements for reporting on the Authority 's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting. The government-wide financial statements split the Authority's programs between governmental activities and business type activities. The Authority does not currently have any business-type activities.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents \$ 173,751

The breakdown between deposits and investments is as follows:

Investments in financial institution pooled funds \$ 173,751

As of June 30, 2008, the Authority had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pool	<u>\$ 173,751</u>	Daily
<u>Interest Rate Risk</u>		

In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's known cash requirements.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local governmental unit in Michigan. The Authority's investment pools are unrated.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Investments

For an investment, that is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, by; limiting investments to the types of securities approved in the Authority's investment policy which is in accordance with State law.

Foreign Currency Risk

The Authority's investment policy does not address foreign currency risk.

Investments:

The Authority Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

TAWAS POLICE AUTHORITY
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended June 30, 2008 was as follows:

<u>Governmental Activities</u>	<u>Balance 07/01/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/08</u>
Capital Assets Being Depreciated:				
Vehicles	\$ 70,274	\$ 20,841	\$ (19,706)	\$ 71,409
Less Accumulated Depreciation for:				
Vehicles	<u>(32,408)</u>	<u>(15,501)</u>	<u>16,093</u>	<u>(31,816)</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 37,866</u>	<u>\$ 5,340</u>	<u>\$ (3,613)</u>	<u>\$ 39,593</u>

Depreciation expense was charged to programs of the primary government as follows:

<u>Governmental Activities</u>	
Public Safety	<u>\$ 15,501</u>

NOTE 5 - LONG-TERM DEBTA. Compensated Absences

The Authority has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of June 30, 2008, the accumulated vested vacation and sick leave benefits of the employees were as follows:

	<u>Current Liability 06/30/08</u>	<u>Long-Term Liability 06/30/08</u>	<u>Total Balance 06/30/08</u>
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	<u>\$ 20,030</u>	<u>\$ 27,283</u>	<u>\$ 47,313</u>

B. Changes in Long-Term Liabilities

	<u>Balance July 1, 2007</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Accrued employee benefits payable	<u>\$ 47,775</u>	<u>\$ (462)*</u>	<u>\$ 0</u>	<u>\$ 47,313</u>	<u>\$ 20,030</u>

*Represents net of additions and retirements for the year.

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 6 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets of the Authority for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2008, the Authority incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General Fund:			
Communications	\$ 7,500	\$ 7,531	\$ 31
Transportation	\$ 18,000	\$ 18,845	\$ 845

NOTE 7 - RETIREMENT SYSTEM - MERS OPERATED

Plan Description

The Authority's defined benefit pension plan, covering its employees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple - employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Authority is required to contribute at an actuarially determined rate. The current rate is 12% of annual covered payroll. The contribution requirements of the plan members is 10.31% of their annual compensation. If a member leaves the employ of the Authority, or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (with interest) are refunded with spousal consent to the member, if living, or to the member's surviving spouse or beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

TAWAS POLICE AUTHORITY
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008NOTE 7 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)Annual Pension Cost

For 2008, the Authority's annual pension cost of \$32,035 was equal to the Authority's and employees required and actual contributions.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/06	\$ 29,572	100%	\$ 0
06/30/07	\$ 30,283	100%	\$ 0
06/30/08	\$ 32,035	100%	\$ 0

The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2007 included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to merit, longevity and promotions. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of the plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The plans unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2007 was 28 years.

Funded Status and Funding Progress

As of December 31, 2007, the most recent actuarial valuation date, the plan was 54.2% funded. The actuarial accrued liability for benefits was \$868,435, and the actuarial value of assets was \$471,045, resulting in an unfunded actuarial accrued liability (UAAL) of \$397,390. The covered payroll (annual payroll of active employees covered by the plan) was \$252,123, and the ratio of the UAAL to the covered payroll was 158%.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/05	\$ 341,473	\$ 725,319	\$ 383,846	47%	\$ 207,940	185%
12/31/06	\$ 403,066	\$ 777,763	\$ 374,697	52%	\$ 229,207	163%
12/31/07	\$ 471,045	\$ 868,435	\$ 397,390	54%	\$ 252,123	158%

TAWAS POLICE AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for medical benefits claims and workers compensation, and participate in the Michigan Township Participating Plan risk pool for claims relating to property, general liability, wrongful acts, law enforcement, automobile, bond, crime, inland marine and boiler claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

The Michigan Township's Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS POLICE AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenue</u>				
Charges for services	\$ 500,000	\$ 500,000	\$ 500,000	\$ 0
Fines and forfeitures	25,000	26,150	27,670	1,520
Interest earned	5,000	7,000	7,219	219
Other	5,000	13,900	14,716	816
Total Revenue	<u>535,000</u>	<u>547,050</u>	<u>549,605</u>	<u>2,555</u>
<u>Expenditures</u>				
Salaries, wages and fees	300,000	300,799	285,915	14,884
Payroll taxes and employee benefits	147,600	137,100	133,885	3,215
Operating supplies	3,400	3,500	3,088	412
Communications	6,500	7,500	7,531	(31)
Transportation	14,000	18,000	18,845	(845)
Insurance	42,700	36,600	36,451	149
Training	2,000	2,000	691	1,309
Repair and maintenance	19,000	32,000	28,625	3,375
Clothing	5,800	6,001	3,282	2,719
Professional	17,000	12,000	11,582	418
Rents and leases	7,200	7,200	7,200	0
Capital outlay	21,000	21,000	20,841	159
Other	800	3,300	2,343	957
Total Expenditures	<u>587,000</u>	<u>587,000</u>	<u>560,279</u>	<u>26,721</u>
Excess of Revenue Over (Under) Expenditures	(52,000)	(39,950)	(10,674)	29,276
<u>Other Financing Sources</u>				
Sale of capital assets	<u>0</u>	<u>3,340</u>	<u>2,564</u>	<u>(776)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures	(52,000)	(36,610)	(8,110)	28,500
Fund Balances - Beginning of Year	<u>177,801</u>	<u>177,801</u>	<u>177,801</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 125,801</u>	<u>\$ 141,191</u>	<u>\$ 169,691</u>	<u>\$ 28,500</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA

Herman A. Bertuleit

November 24, 2008

Management and Members of the Authority Board
Tawas Police Authority
Iosco County, Michigan

We have conducted the audit of the financial statements of the governmental activities and the major fund of the Tawas Police Authority as of and for the year ended June 30, 2008 and have issued our report dated November 24, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the Authority during the audit and met with management on November 24, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Authority Board and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

Appendix 1

Communication to Those Charged with Governance

Responsibilities Under Generally Accepted Auditing Standards

As stated in our engagement letter dated September 25, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated September 25, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Authority during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no difficulties during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. No unadjusted audit differences were noted during the audit.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Appendix 1
Communication to Those Charged with Governance

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix II

Management Comments

In planning and performing our audit of the financial statements of the Tawas Police Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Tawas Police Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tawas Police Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tawas Police Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiencies in internal control that we consider to be material weaknesses.

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Tawas Police Authority's financial statements. However, if at any point in the audit we as auditors are part of the Authority's control system for producing reliable financial statements, auditing standards indicate that the Authority has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

SEGREGATION OF DUTIES IN THE PERFORMANCE OF FUNCTIONS

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the Authority's staff prohibits complete adherence to this concept, we believe that implementing the following practice could greatly improve existing internal control without impairing efficiency. We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts. In addition, we recommend that the bank reconciliations be reviewed by an individual, other than the one preparing them, on a monthly basis and indicate this review with initials or signature.

Appendix II Management Comments

View of Responsible Officials:

FINANCIAL STATEMENT PREPARATION CONTROLS

The Tawas Police Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Authority to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

SEGREGATION OF DUTIES

The Tawas Police Authority has determined that the cost of implementing all of the recommendations outweigh the benefits to the Authority. However, the Tawas City Clerk will implement the review of bank reconciliations and bank statements effective immediately.

The Tawas Police Authority's responses to the findings in our audit are described above. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

We have also noted other items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

CASH DISBURSEMENTS

During our audit testing we noted that all invoices received by the Authority are approved by the Police Chief and then are forwarded on to the Tawas City Clerk for payment. Prior to payment, the Clerk summarizes the invoices on a monthly payment claim sheet which is submitted to the Authority Board for approval. While the claim sheet provides an adequate summary of disbursements to be paid, we feel the Authority Board should also be provided with the original invoices and that they are reviewed along with the claim sheet on a monthly basis.

EMPLOYEE TIMESHEETS

All employee timesheets are currently collected and approved by the Police Chief, who then prepares a summary of hours worked for each employee. This summary is given to the Tawas City Clerk for payroll processing. The timesheets are not included in the summary that is currently given to the Clerk which prevents the Clerk from being able to review the summary for accuracy. We recommend that the timesheets be provided to the Clerk along with the summary of hours worked by each employee in order for the Clerk to verify that the summary was prepared correctly.

EMPLOYMENT CONTRACT

The Tawas Police Authority operated during the year ended June 30, 2008 without a signed contract for the Police Chief. Due to this situation, we were not able to trace approved wage rates or imposed limits placed on earned vacation and sick leave for the Police Chief. We recommend that the Authority Board obtain a signed contract for the Police Chief as soon as possible.

Appendix II
Management Comments

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Separation of Duties in the Performance of Functions				X
Financial Statement Preparation				X
Budget Control	X			
Adopting GASB 34	X			